ManpowerGroup
Prepared Remarks Transcript
Q2 2023 CONFERENCE CALL

SLIDE 1 – Jonas Prising

Welcome to the second quarter conference call for 2023. Our Chief Financial Officer, Jack McGinnis, is with me today. For your convenience, we have included our prepared remarks within the Investor Relations section of our website at manpowergroup.com. I will start by going through some of the highlights of the quarter, then Jack will go through the second quarter results and guidance for the third quarter of 2023. I will then share some concluding thoughts before we start our Q&A session. Jack will now cover the Safe Harbor language.

SLIDE 2 – Jack McGinnis

Good morning, everyone. This conference call includes forward-looking statements, including statements concerning economic and geopolitical uncertainty, which are subject to known and unknown risks and uncertainties. These statements are based on management's current expectations or beliefs. Actual results might differ materially from those projected in the forward-looking statements. We assume no obligation to update or revise any forward-looking statements.

Slide 2 of our earnings release presentation further identifies forward-looking statements made in this call and factors that may cause our actual results to differ materially and information regarding reconciliation of non-GAAP measures.

SLIDE 3 – Jonas Prising

Thanks Jack.

I'm just back from trips through Europe, which included VivaTech, one of the world's largest technology and start-up events in Paris where we were a key partner for the seventh year, showcasing our innovation and workforce expertise in our New Human Age lab. The advancement of Generative AI and the impact on skills and jobs was a hot topic. Our panel roles and media interviews led me to reflect that we first discussed the impact of automation on jobs almost ten years ago at the World Economic Forum. Our data and experience tell us then as now that human capital augmented by tech is what will accelerate progress –

companies that automate and digitize the most see the biggest productivity improvements and create the most jobs. And the biggest challenge won't be the elimination of jobs; it will be the need for new workforce skillsets at a speed and scale never seen before.

Reflecting on global labor markets and economic environment – although we continue to see labor markets demonstrate resilience around the world with continued low unemployment in many markets, some signs of broader economic pressures are emerging. As I mentioned last quarter, we are seeing slower hiring trends across the board with particular impacts in certain sectors in the U.S and Europe. Large tech enterprise companies have continued to substantially reduce headcounts - a trend that began in late 2022. We are also tracking softer commercial staffing demand due to decreased production in some manufacturing activities.

Our most recent ManpowerGroup Employment Outlook Survey of 40,000 employers in 30+ countries conducted in the spring found companies plan more measured hiring for Q3 as they navigate a range of local and macro challenges from supply constraints to uneven consumer confidence and shifting purchasing priorities amid continued high inflation. Many labor market and other economic data points often lag the cautious employer trends that impact our industry first.

In this environment, we saw mixed demand for staffing and weakened demand for permanent recruitment services in the U.S. and Europe. At the same time, we continue to see growth in LATAM and APME with ongoing demand for our services.

Moving on to our financial results, in the second quarter revenue was $4.9 billion, down 3% year over year in constant currency. Our reported EBITA for the quarter was $116 million. Adjusting for restructuring and Argentina hyperinflationary foreign exchange charges, EBITA was $131 million, representing a 31% decrease in constant currency year over year. Reported EBITA margin was 2.4%, and adjusted EBITA margin was 2.7%. Earnings per diluted share was $1.29 on a reported basis and $1.58 on an adjusted basis. Adjusted earnings per share were down 31% year over year in constant currency.

Although uncertainty may persist, from my conversations with clients and our teams in many countries, it is clear that people with specific skill sets continue to be in-demand, and that Human Capital is and will continue to be a key driver of corporate success, with employers focused on holding on to the talent they struggled to recruit in the last couple of years. The progress we have made to meet this demand by diversifying our business across our brands, offerings and geographies will continue to serve us well. Our progress in creating talent at scale through our MyPath and Experis Academy initiatives provide competitive strength as we create the scarce skills our clients are looking for in the talent they need.

I will now turn it over to Jack to take you through the results.

SLIDE 3 – Jack McGinnis

Thanks, Jonas.

Revenues in the second quarter came in at the midpoint of our constant currency guidance range. Gross profit margin came in just below our guidance range due to lower permanent recruitment activity. As adjusted, EBITA was $131 million, representing a 31% decrease in constant currency compared to the prior year period. As adjusted, EBITA margin was 2.7% and came in at the low-end of our guidance range, representing 110 basis points of decline year over year.

During the quarter, year over year foreign currency movements had a modest impact on our results. Foreign currency translation drove about a one percent swing between the U.S. dollar reported revenue trend and the constant currency related trend. After adjusting for the negative impact of foreign exchange rates, our constant currency revenue decreased 3%. Organic days-adjusted revenue decreased 3% in the quarter in line with our guidance.

SLIDE 4 – Jack McGinnis

Turning to the EPS bridge on slide 4, reported earnings per share was $1.29 which included $0.29 related to restructuring and non-cash foreign currency charges related to our hyperinflationary translation of our Argentina business. Argentina is required to be treated as a hyperinflationary economy and the non-cash currency translation losses reflect the devaluation of the Argentine peso during the quarter. This is a non-cash accounting charge as our Argentina business operates in their local currency.

Excluding these charges, adjusted EPS was $1.58. Walking from our guidance mid-point, our results included a softer operational performance of 5 cents, a lower weighted average share count due to share repurchases in the quarter which had a positive impact of 2 cents, a lower effective tax rate which had a positive impact of 2 cents, a foreign currency impact that was 1 cent worse than our guidance, and interest and other expenses which had a negative 3 cent impact.

SLIDE 5 – Jack McGinnis

Next, let's review our revenue by business line. Year over year, on an organic constant currency basis, the Manpower brand reported a revenue decline of 1%, the Experis brand declined by 11%, and the Talent Solutions brand revenue declined by 9%. The Experis decline represented lower activity from both enterprise and convenience customer segments with enterprise clients having a much more pronounced pull-back compared to significant growth in the prior year. Within Talent Solutions we saw a significant year-over-year revenue decline in RPO as we anniversaried high levels of permanent hiring across our key markets in the prior year period. Our MSP business saw revenue declines in the quarter as we reduced certain lower margin activity, while Right Management experienced significant revenue growth on higher outplacement volumes in the quarter compared to the record-low levels of activity in the prior year period.

SLIDE 6 – Jack McGinnis

Looking at our gross profit margin in detail, our gross margin came in at 17.8%. Staffing margin contributed a 10 basis point reduction as Manpower experienced very slight mix related decrease in staffing margin. Permanent recruitment, including Talent Solutions RPO, contributed a 40 basis point GP margin reduction as permanent hiring demand experienced reduced levels from the record high activity in the prior year period. The reduction in permanent recruitment during the quarter was greater than expected which drove the slightly lower than guidance gross margin result. Right Management career transition within Talent Solutions contributed 30 basis points of improvement as outplacement activity increased significantly. Other items resulted in a 20 basis point margin decrease.

SLIDE 7 – Jack McGinnis

Moving onto our gross profit by business line. During the quarter, the Manpower brand comprised 58% of gross profit, our Experis professional business comprised 25%, and Talent Solutions comprised 17%.

During the quarter, our consolidated gross profit decreased 6% on an organic constant currency basis year over year.

Our **Manpower** brand reported an organic gross profit decrease of 3% in constant currency year over year.

Organic gross profit in our **Experis** brand decreased 13% in constant currency year over year. Permanent recruitment decreases within Experis drove the higher rate of overall GP decrease for the brand.

Organic gross profit in **Talent Solutions** decreased 7% in constant currency year over year. This was driven by declines in RPO and MSP, partially offset by significant growth in Right Management during the quarter. Gross Profit in RPO decreased in the double-digit percentage range in the quarter as we anniversary record-levels of permanent hiring activity in the prior year period, while MSP experienced a slight GP decline during the quarter.

SLIDE 8 – Jack McGinnis

Reported SG&A expense in the quarter was $755 million. Excluding restructuring costs, SG&A was flat year over year on an organic constant currency basis, down from the 3% growth in the first quarter on this same basis. This reflects a balance of cost reductions in areas of slowing demand while we continue to invest in strategic digitization initiatives as well as growth opportunities, most notably including Experis, Talent Solutions, and specialty skills in Manpower. The underlying increases consisted of operational costs of $2 million, incremental costs related to net acquisitions of $4 million, offset by currency changes of $4 million. Adjusted SG&A expenses as a percentage of revenue represented 15.2% in constant currency in the second quarter reflecting lowered operational leverage on the revenue decline. Restructuring costs totaled $14.5 million.

SLIDE 9 – Jack McGinnis

The **Americas** segment comprised 23% of consolidated revenue. Revenue in the quarter was $1.1 billion, representing a decrease of 9% compared to the prior year period on a constant currency basis. Reported OUP was $43 million and includes $1 million of restructuring costs. As adjusted, OUP was $44 million and OUP margin was 4.0%.

SLIDE 10 – Jack McGinnis

The **U.S.** is the largest country in the Americas segment, comprising 67% of segment revenues. Revenue in the U.S. was $737 million during the quarter, representing an 18% days-adjusted decrease compared to the prior year.

As adjusted to exclude restructuring costs, OUP for our U.S. business was $27 million in the quarter representing a decrease of 60% from the prior year. As adjusted, OUP margin was 3.6%.

Within the **U.S.,** the Manpower brand comprised 26% of gross profit during the quarter. Revenue for the Manpower brand in the U.S. decreased 19% on a days-adjusted basis during the quarter, representing a further decline from the 15% decrease in the first quarter. Manufacturing PMI in the U.S. continued to decline during the second quarter from the 48 range in March to the 46 range in June. The U.S. Manpower business was seeing an improved rate of decline as we exited the quarter.

The Experis brand in the U.S. comprised 46% of gross profit in the quarter. Within Experis in the U.S., IT skills comprised approximately 90% of revenues. On a days-adjusted basis, Experis U.S. revenue decreased 17% as we anniversaried significant 2022 growth of 25% organically in the year-ago period. As referenced earlier, the year ago period experienced dramatic growth from enterprise clients and this period's pull-back is most pronounced from these enterprise clients.

Talent Solutions in the U.S. contributed 28% of gross profit and experienced revenue decline of 22% in the quarter. This was driven by a decrease in RPO revenues in the U.S. as permanent hiring programs continued at lower levels in the second quarter as we anniversaried record growth in the prior year. The U.S. MSP business saw revenue decline as we reduced some lower margin activity, while outplacement activity within our Right Management business drove significant revenue increases.

In the third quarter of 2023, we expect a similar to slightly lower rate of year over year revenue decline as compared to the second quarter trend in the U.S.

SLIDE 11 – Jack McGinnis

Southern Europe revenue comprised 46% of consolidated revenue in the quarter. Revenue in Southern Europe came in at $2.2 billion, representing a 1% decrease in organic constant currency. Reported OUP was $93 million and includes $6 million of restructuring costs which were related to our Spain operations. As adjusted, OUP was $99 million and OUP margin was 4.4%.

SLIDE 12 – Jack McGinnis

France revenue comprised 57% of the Southern Europe segment in the quarter and revenue equaled $1.3 billion in the quarter and was flat on a days-adjusted organic constant currency basis. OUP for our France business was $50 million in the quarter representing an organic decrease of 25% in constant currency. OUP margin was 3.9%.

We are estimating the year over year constant currency revenue trend in the third quarter for France to be a very slight constant currency decrease year over year representing a flat days-adjusted result.

Revenue in **Italy** equaled $458 million in the quarter and was flat on a days-adjusted constant currency basis. OUP equaled $36 million and OUP margin was 7.9%. We expect a similar rate of constant currency revenue decline in the third quarter compared to the second quarter.

SLIDE 13 – Jack McGinnis

Our **Northern Europe** segment comprised 19% of consolidated revenue in the quarter. Revenue of $952 million represented a 6% decline in constant currency. After excluding restructuring costs of $8 million, adjusted OUP was a negative $2 million and OUP margin was -0.2%. The restructuring costs related to our Nordics and Germany operations.

SLIDE 14 – Jack McGinnis

Our largest market in the Northern Europe segment is the **U.K.**, which represented 34% of segment revenues in the quarter. During the quarter, U.K. revenues decreased 12% on a days-adjusted constant currency basis. This reflects a stabilized rate of decline from the first quarter on this same basis. We expect a similar rate of constant currency revenue decline in the third quarter compared to the second quarter.

In **Germany,** revenues increased 5% in days-adjusted constant currency in the quarter, representing three consecutive quarters of improvement driven by our Manpower business, particularly in the automotive sector. I mentioned last quarter that we were performing a detailed evaluation of our underperforming Proservia managed services business in Germany. We have concluded this evaluation and have decided to wind down this business. The wind down activities are commencing in the third quarter. I will provide further details on the expected restructuring charges associated with this wind down as part of our third quarter earnings results. This business has been a significant drag on our Germany operations and these actions will improve profitability going forward. Overall, in the third quarter we are expecting a similar rate of constant currency revenue growth compared to the second quarter trend driven by our Manpower business.

In the **Netherlands,** revenue decreased 7% on a days-adjusted constant currency basis and this represented a stable rate of decline from the first quarter on this same basis.

SLIDE 15 – Jack McGinnis

The **Asia Pacific Middle East** segment comprises 12% of total company revenue. In the quarter, revenue grew 4% in constant currency to $599 million. OUP was $26 million and OUP margin was 4.3%.

SLIDE 16 – Jack McGinnis

Our largest market in the APME segment is **Japan**, which represented 48% of segment revenues in the quarter. Revenue in **Japan** grew 12% in constant currency, or 10% on a days-adjusted basis. We remain very pleased with the consistent performance of our Japan business, and we expect continued strong revenue growth in the third quarter.

SLIDE 17 – Jack McGinnis

I'll now turn to cash flow and balance sheet. In the second quarter, free cash flow represented an outflow of $177 million compared to an outflow of $72 million in the prior year. The higher outflow in the current year was driven by timing of payables and timing of payments within our large MSP business.

At the end of the second quarter, days sales outstanding was flat at 58 days. During the second quarter, capital expenditures represented $21 million.

During the second quarter we repurchased 687,000 shares of stock for $50 million. As of June 30th, we have 928,000 shares remaining for repurchase under the share program approved in August of 2021.

SLIDE 18 – Jack McGinnis

Our balance sheet ended the quarter with cash of $408 million and total debt of $1 billion. Net debt equaled $594 million at quarter-end. Our debt ratios at quarter-end reflect total adjusted gross debt to trailing twelve months Adjusted EBITDA of 1.53 and total debt to total capitalization at 29%.

SLIDE 19 – Jack McGinnis

Our debt and credit facilities remained unchanged during the quarter.

SLIDE 20 – Jack McGinnis

Next, I'll review our outlook for the third quarter of 2023. Based on trends in the second quarter and July activity to date, our forecast is cautious and anticipates that the third quarter will continue to be challenging in the U.S. and Europe. This anticipates further weakening of permanent recruitment activity based on developments in the second quarter partially offset by additional cost actions being taken. We are forecasting underlying earnings per share for the third quarter to be in the range of $1.32 to $1.42, which includes a favorable foreign currency impact of 8 cents per share. We have disclosed our foreign currency translation rate estimates at the bottom of the guidance slide.

Our constant currency revenue guidance range is between a decrease of 7% and 3% and at the midpoint represents a 5% decrease. The impact of net acquisitions is negligible and there is about 1 less billing day this period contributing to an organic days-adjusted constant currency revenue trend of a 3.5% decrease at the mid-point. This is comparable to the decrease in the second quarter on this same basis.

We expect our EBITA margin during the third quarter to be down 120 basis points at the midpoint compared to the prior year.

We estimate that the effective tax rate for the third quarter will be 30%.

As usual, our guidance does not incorporate restructuring charges or additional share repurchases and we estimate our weighted average shares to be 50.5 million. As I mentioned, we do expect to have restructuring charges associated with the wind down of our Proservia managed services business in Germany and we will disclose those and any additional restructuring charges separately when we report our third quarter earnings. Our guidance also does not include the impact of the non-cash currency translation adjustment for our hyperinflationary Argentina business and we will also report that separately. I will now turn it back to Jonas.

SLIDE 21 – Jonas Prising

Thanks Jack.

To meet the demands and opportunities of the market and position us for success in the future we continue to progress a transformation agenda in support of our strategy. We feel very good about our diversification strategy, building strong brands with differentiated market positions and clear value propositions in Manpower, Experis and Talent Solutions. Our digitization strategy will be a key enabler for productivity and innovation providing data and insights our clients and candidates want. Our industry leading global technology platform PowerSuite covers substantially all of our key markets through 2023, with ongoing implementation of common applications and a leading cloud enabled back-office infrastructure across our global footprint, another strong differentiator. We believe this will enable great opportunities for accelerated growth and productivity in the future.

We are also taking decisive actions within the business that are aligned with our strategy to simplify our operations, evolve our brand/geo model and prioritize our investments. Our strategy is clearer than ever, and we are committed to adjusting our portfolio for business that is not core to that strategy. The decision to wind down our Proservia managed services business in Germany, though a difficult one, reinforces our discipline in focusing on IT resourcing and solutions and is a proof point that we will take the necessary actions to address businesses that do not fit our strategy or meet our profitability hurdle rates.

We are very pleased to be named a Global Leader in Recruitment Process Outsourcing for the 13th year in the Everest Group PEAK Matrix Assessment – recognized in North America, Asia Pacific, and Europe, Middle East, and Africa. Everest especially highlighted Talent Solutions' talent advisory practices in talent strategy, talent transformation, and talent sustainability. Additionally, we were recognized for providing DEIB services to clients, including diverse talent sourcing and DEIB partnerships.

Our commitment to integrating and including diverse talent is recognized by our clients and by our partners. In June, we reaffirmed our dedication to refugee employment in Europe by committing that we will support 45,000 refugees over the next three years, including Ukrainian refugee women. This includes working with clients and others to place 30,000 refugees into meaningful employment opportunities and providing 15,000 refugees with a mix of upskilling and training courses through our MyPath and Experis Academies.

I would like to close by thanking our ManpowerGroup team around the world for another quarter of dedication to drive the business forward despite a more challenging environment in many markets. Our experienced leadership team has faced similar challenges in the past and as much as we are focused on navigating an uncertain environment we are also preparing for a strong rebound when the markets improve.

With that, I will open to Q&A – operator?